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RUEHSO/AMCONSUL SAO PAULO 3290
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E.O. 12958: N/A
TAGS: ECON EFIN EINV ETRD AR
SUBJECT: ARGENTINA ECONOMIC AND FINANCIAL REVIEW, MAY 14 - 18, 2007

¶1. Provided below is Embassy Buenos Aires' Economic and Financial Review covering the period May 14 - 18, 2007. The unclassified email version of this report includes tables and

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charts tracking Argentine economic developments. Contact Econoff Chris Landberg at landbergca@state.gov to be included on the email distribution list.

Weekly Highlights

-- GoA Bond issued at higher yield than corporates
-- Economy Minister Announces Launch of National Production Plan
-- Rumor of domestic group purchasing 25% of YPF
-- GoA reaches agreement with beef producers
-- FDI into Argentina down 4% y-o-y in 2006
-- Argentina's Export Performance Comparison with other Emerging Economies

Banking and Finance

GoA Bond Issued at Higher Yield than Corporates

¶2. On May 10, the GoA issued $750 million of a ten-year-maturity bond, the Bonar X (also known as the Bonar 2017) at a yield of 8.44% -- only two basis points lower than the first GoA auction of $750 million in Bonar X on April 12. (Note: The Bonar X is a ten-year, dollar-denominated, bullet with a 7% coupon issued under Argentine law). Interestingly, the Bonar X's yield was higher than that of two recent corporate issues: Alto Palermo (a real estate

company that develops and administers the main Argentine shopping malls) and TGS (a gas pipeline company). Alto Palermo and TGS each recently tapped the market at yields of 7.875% for similar dollar denominated instruments. (Note: the TGS bond has a ten-year maturity, similar to the Bonar X and the Alto Palermo bond, but has a shorter average life since it has an amortizing principal structure.)

¶3. Many private analysts believe that the higher GoA yields are at least partially explained by market concerns over GoA manipulation of the statistical agency's (INDEC) CPI figures and by the GoA's inability to issue debt in international markets under foreign law. (Note: the TGS and Alto Palermo bonds were issued under New York law). However, some local analysts also point to slowing growth, brewing corruption scandals, and GoA market interventions as factors in the interest rate differential. GoA sources choose to accentuate the positive: the oversubscription of the Bonar X issuance, with the GoA receiving bids for $1.9 billion in the May auction, compared to $1.5 billion for the April auction. With this transaction, the GoA will only need to raise between $1.5 and 1.8 billion to complete its 2007 financial needs.

Economic Policy

Economy Minister Announces Launch of National Production Plan

¶4. On May 11, President Kirchner and Economy Minister Miceli convoked provincial economy ministers to announce the development over the coming six months of a post-crisis National Production Plan. President Kirchner said that on the December 10, 2007, change of administration, "we will leave hell" (i.e. the crisis period) and, bolstered by dramatic drops in the levels of poverty and strong increases in investment, Argentina will then be able undertake a national debate on the nation's economic future. The fundamentals of such an economic future, he said, would certainly maintain the foundations of current economic growth, including fiscal and trade account surpluses, export growth based on a "competitive" exchange rate and expanding investment in the productive economy. Minister Miceli noted that the plan will address asymmetries in national income distribution, particularly in impoverished northern provinces.

Rumor of Domestic Group Purchasing 25% of YPF

¶5. On May 15, daily newspaper Cronista Comercial reported that Spain's Repsol is currently negotiating the sale of 25% of Repsol's Argentine subsidiary YPF to a local group. Repsol representatives have not provided details on the potential buyers, due to a confidentiality agreement. However, Cronista and other local media report rumors that potential buyers include: Enrique Eskenazi (President of Banco de Santa Cruz, Santa Fe and Entre Rios), Jorge Brito (President of Banco Macro), and other local businessmen with close ties to the Kirchner administration. (Note: However, Ambassador was told that the primary candidates are not those mentioned in the press. End Note) Cronista quoted Powerful Minister of Planning Julio De Vido saying that the government welcomes partial local-ownership of YPF, which is the largest oil company in Argentina and is valued at about $15-18 billion.

GoA Reaches Agreement with Beef Producers

¶6. After about two months of protests by most beef-producing associations, the GoA agreed to allow "reference" (i.e., fixed) prices to rise approximately 12%, permit a minimum of 500,000 tons of exports (a 25% increase) in 2007, as well as provide some subsidies aimed at increasing future production. The new prices are generally thought to be close to true market prices. The butchers' association was also party to the agreement to control prices. Questions remain about how

long the new price levels will be sustainable, and how effective the subsidies will be, but this may be enough to keep beef, which constitutes 4.5% of the CPI basket, on the table and off the agenda until the October elections.

Economic Outlook

FDI flows to Argentina down 4% y-o-y in 2006

¶7. FDI flows to Argentina were $4.8 billion in 2006, 4% lower than in 2005, according to ECLAC's recent publication. Argentina's share of FDI flows to Latin America was 6.7% in 2006, down slightly from its 7% share in 2005. Argentina had received an average share of 14.4% of FDI inflows into Latin America between 1992 and 2000. Even if the purchase of YPF by Spain's Repsol and FDI directed to privatizations in the 1990s (which meant high FDI inflows) were excluded from the data, Argentina's average share of FDI in Latin America was still 8.8% in 1992-2000. According to Embassy calculations, Argentina's 2006 share of Latin American FDI inflows would have been 11.1% if Argentina's FDI share had tracked with GDP growth as it did in 1992-2000, and all other variables had remained constant. (Note: this estimate excludes the purchase of YPF and the 1990s privatizations from the calculation of the 1992-2000 average.)

Argentina's Export Performance
Comparison with other Emerging Economies

¶8. Argentine exports will have grown an estimated 40.4% from 2002 to end-year 2007, a 7% annual average. However, the Argentine share of world exports was 0.40% in 2002, decreasing slightly to 0.39% in 2006. In comparison, Chilean exports are expected to grow by 92.4% during the same period, for a 14% annual average. The Chilean share of world exports was 0.28% in 2002, increasing to 0.48% in 2006. Also, Brazilian exports are expected to grow 64% from 2002 to 2007, a 10.4% annual average, and the Brazilian share of world exports was 0.94% in 2002 up from 1.14% in 2006. The table below shows the results of a comparison of export growth and real GDP growth for major emerging market countries exports in the 2002-2007 period (with projections for end-year 2007), modeled after UCLA Professor Arnold Harberger's analysis of the growing relative importance of international trade (Trade and Economic Growth, Part I; National Center for Policy Analysis, May 2006). Harberger analyzed periods of high economic growth during the last four decades, concluding that the empirical evidence shows that real export growth was higher than real GDP growth in the great majority of high growth periods. Argentina is among those exhibiting the worst exporting performance vis-a-vis GDP growth.

Table: Comparison of Real GDP and Export growth

State	Export growth (2002-07 avg annual %)	Real GDP Growth (2002-07 avg annual %)	% Excess Xpt/GDP Growth (2002-07)
India	21.02	8.38	12.64
Serbia	16.15	5.94	10.22
Peru	15.24	6.09	9.15
Chile	13.98	5.12	8.87
Poland	12.09	4.32	7.77
Brazil	10.41	3.11	7.30
China	17.11	10.04	7.07
Romania	11.79	6.03	5.76
Korea	8.98	4.20	4.78
Ukraine	11.47	6.78	4.69
Venezuela	11.18	7.24	3.94
Uruguay	9.94	6.33	3.61
South Africa	7.74	4.14	3.61
Ecuador	8.53	4.93	3.60
Russia	10.01	6.72	3.29
Hungary	6.13	3.68	2.46

Turkey	8.34	6.04	2.29
Singapore	8.76	6.62	2.14
Colombia	7.55	5.41	2.13
Thailand	6.38	5.31	1.06
Mexico	3.27	3.37	(0.10)
Malaysia	4.91	5.74	(0.82)
Indonesia	4.38	5.42	(1.04)
Israel	3.14	4.21	(1.07)
Taiwan	2.95	4.42	(1.46)
Argentina	7.02	8.50	(1.48)
Panama	4.62	6.73	(2.11)
Philippines	2.30	5.30	(3.00)
Hong Kong	2.09	5.94	(3.85)

Data Source: IMF
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